MORTGAGE BULLETIN

PUBLISHED IN THE INTERESTS OF REAL ESTATE ANALYST SUBSCRIBERS BY

ROY WENZLICK & CO.

Real Estate Economists, Appraisers and Counselors

APRIL 27
1953

Volume XXII

Number 16

MORTGAGE FINANCE IN A BUSINESS ADMINISTRATION

THE present combination of economic and political developments will be productive of a sufficiently high level of business activity to justify classifying 1953 as part of the protracted postwar boom and not as a recession year. In my opinion, business will follow closely the pattern of the past 12 months, contingent on defense and consumer spending.

The continuing upsurge in business is underpinned by defense spending and protected by high personal savings. It has been termed the "Confidence Boom" because of the country-wide confidence in President Eisenhower.

The pattern set by President Eisenhower over the span of his first 2 months in office has been significant and augurs well for the future. His record has been substantial and suggestive of more to come. He has been bold, and has already given notice that in this administration there is going to be motion.

Considering the General's selections since his election to the Presidency, the company he kept during his campaign and what he had to say concerning such things as government expenses, it would appear that the objective of the Republican administration will be a reversal of the paternalistic trends in government which Roosevelt and Truman were so persistently accused of harboring.

Whether this change can be brought about without grave dislocations of industrial, business and governmental relationships is highly debatable. There is also the big question as to whether political opposition to changes can be overcome.

It is obviously much too early to assume that the hopes raised by General Eisenhower's election are on their way to fruition. However, what is clearly evident and well substantiated is that the President has taken hold of his responsibilities with vigor and determination. He is showing himself forthright and decisive - a Chief Executive in full command of his administration.

Industrial production is breaking all postwar records, and a rising output in the automobile industry, combined with new construction, is pushing up business activity. Optimism is riding high.

By all signs the "Confidence Boom" has enough momentum to continue probably through most of this year.

There will be no major business collapse in 1953.

A bit of prudence, though, appears to be called for. There will be many changes, some of them unexpected, before the year runs out. Roy Wenzlick has repeatedly warned that after 12 years the boom is getting tired, and while the green light is going out the amber light is flashing again.

Turning now to mortgage finance in 1953, the outlook may be considered fairly bright. The optimism of homebuilders began to bloom as the number of private dwelling units put under construction during the first quarter was equal to the number of a year ago. Housebuilding is still proceeding at a seasonally adjusted yearly rate of over a million units, but we question whether the requirements of an increasing population have created an effective demand for one million housing units each year.

Production of new homes during the past 3 years exceeded the rate of population growth, and the formation of new families has declined to a current rate of about 900, 000 annually. Projections by the Bureau of the Census hint strongly that the decline may continue into 1960.

That home construction has not been mired down by the burden of increasing vacancies is attributable to the urge for more gracious living by many thousands of apartment dwellers who have sought new homes in suburban towns. The advance in city rentals has probably helped motivate this migration, but the biggest factor has been the availability of easy housing credit.

Significant changes are taking place in the real estate market. Homebuilders report that buyers are becoming harder to close. This appears particularly true in the higher priced brackets. While it is true that the price of newly built, single-family homes is fairly stable, the prices of existing houses, which declined about 8 percent in 1952, will continue to sag. Builders' complaints over heavy vacancies in defense areas caused HHFA to cut back construction programs in at least nine of these areas in February. About 6, 500 dwelling units of the thirty-odd thousand defense units which have been completed are standing empty. In a few areas vacancies are reported to be from 50 to 95 percent.

If these over-all reports accurately demonstrate that new housing supply is treading on the heels of housing demand, then it is quite natural to assume that prices for homes may decline in many cases, and a sagging housing market will eventually drag down construction costs. Analysis of today's real estate trends can only lead to the conclusion that threatened overproduction in homebuilding and an over-all combined consumer and home-mortgage debt of more than $82 billion demand a cautious and market-wise mortgage policy.

However, prudence in making loans does not mean a termination of lending. It means simply the introduction of lending policies which recognize the probability of its becoming increasingly difficult for borrowers to take care of their

payments promptly and a greater risk of loss to the mortgagee.

Rarely, if ever, are there no borrowers entitled to credit; but when real estate trends point downward and future business activity is overhung with uncertainty, those seeking loans must expect stiffer financing arrangements.

During 1952 the mortgage market displayed unusual strength. A total of 3,028,000 nonfarm mortgages of $20,000 or less, aggregating $18 billion in amount, was recorded for the year - an average of $5,950 per mortgage. Outstanding home mortgages at the close of 1952 totaled over $58 billion, a net gain over 1951 of $6.3 billion.

Mortgage recordings will again be large in 1953, perhaps not much less than in 1952, but the mortgage business in the next few years is bound to decline from the lofty plateau it has occupied since 1950. As Brown L. Whatley of Jacksonville, Florida, told the Massachusetts Mutual Savings Bankers Association at its 35th annual convention: "When we consider the tremendous volume of amortization and prepayments in connection with the present sizable portfolios and the record-breaking total mortgage debt, little net increase in mortgage investments may be looked for during the next several years."

President Eisenhower and his fiscal policy makers seem to be having difficulty with the controversial problem of interest rates on government-guaranteed home mortgages. A few weeks ago the story was in circulation that VA interest would be boosted from 4 to 4-1/4 percent on April 1. This rumor was "for the birds," as time has proven. A ray of real hope shone out, however, on April 13, when the Federal National Mortgage Association announced that over-the-counter purchases of mortgages insured by FHA and those guaranteed by VA had been temporarily suspended. FNMA said the action was taken pending a necessary review of its purchase policies in a changing market. It did not say when the buying would be resumed. The ruling does not apply to defense, military, Alaska and disaster housing mortgages. The suspension was generally regarded in the open market as a strong indication that higher government mortgage rates will soon be announced. By stepping out of the buying role, FNMA would avoid loading up with more paper at current low rates.

The recent decision of the Treasury to bring out at 3-1/4 percent a long-term issue confirms the belief that a rise in mortgage rates is in immediate prospect. If such an increase does occur, the 4 percent and 4-1/4 percent paper now held by "Fanny May" could be sold only at a discount or held to maturity. Further appropriations then would be required for the purchase of additional mortgages at the higher interest rates. FNMA had available about $170,000,000 for open-market purchases at present suspended.

President Eisenhower is moving carefully in forming his housing policies. Maneuvering skilfully to get the right men, he is gradually replacing the old praetorian guard of the Truman administration with men of his own selection.

Raymond M. Foley, HHFA Administrator, has been succeeded by former Rep. Albert M. Cole of Kansas (R). Guy T. O. Hollyday of Baltimore, a former president of the Mortgage Bankers Association, has replaced Walter Green as FHA Commissioner. Hollyday is a top-drawer mortgage man who knows every twist and turn of the mortgage trailways. He will be a credit to the administration. General Gray, VA Administrator, will also probably be replaced by an Eisenhower man. T. B. King, director of the Loan Guaranty Division of the VA, has defended the VA 4 percent interest rate as tenaciously as Leonidas defended the pass of Thermopylae. I do not look for him to be replaced until Administrator Cole completes his study of the over-all programs of HHFA and submits his report to the President, and perhaps not then.

The controversial question of mortgage interest rates is undergoing diligent and thorough study by the fiscal policy makers as heavy pressure is being brought to bear on them to make a decision because of the "uncertainty" now lessening activity in the mortgage market. The cessation of FNMA's purchasing of mortgages is an encouraging sign that a decision is to be forthcoming shortly.

Contradictory scuttlebutt has been confusing everyone. More intestinal fortitude and less salaaming to political expediency is what we need to clear up the existing confusion in Washington. It wouldn't surprise me if, when the impending ruling is handed down, both VA and FHA interest rates were pegged at $4\frac{1}{2}$ percent.

Another "hot potato" a bumbling Congress is fumbling with is direct loans to veterans. The present program expires on June 30, and in spite of strong protests from lending institutions most of the lawmakers appear convinced that an extension of the program is needed for veterans in rural areas and smaller communities where it is hard to borrow at 4 percent interest. The Eisenhower administration has refused to comment on an extension. If the bill passes, VA will make these loans up to $25 million per quarter.

In my December Mortgage Bulletin I may have been a bit in front of the weather in guessing there would be an interruption in business by late fall. It is always difficult to epitomize economic changes and the timing on my guess could be slightly off. There is no doubt that we are gradually accumulating the ingredients of a downturn. The only existing question is when enough of them will come into play simultaneously to cause a recession. While the current year roared in bullishly, it might leave sheepishly. "No matter how high the mountains, there is only one peak."

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